

**STATE OF SOUTH CAROLINA
DEFERRED COMPENSATION 457 AND 401(K)
DEFINED CONTRIBUTION PLANS**

Statement Investment Policy



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**STATE OF SOUTH CAROLINA DEFERRED COMPENSATION
457 AND 401(K) DEFINED CONTRIBUTION PLANS**

Statement of Investment Policy

Introduction

The South Carolina Deferred Compensation Commission (the “Commission”) hereby adopts this Statement of Investment Policy (Statement) for the State of South Carolina Deferred Compensation 457 and 401(k) Defined Contribution Plans.

Objectives of the Plans

The Plans are long-term retirement savings vehicles and are intended as a source of retirement income for eligible participants. The investment options available from the Plans cover a broad range of investment risk and rewards appropriate for these kinds of retirement savings programs. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select.

This Statement of Investment Policy serves the following purposes:

- To ensure that a broad range of investment options are offered to Plan participants;
- To establish an investment program that will allow Plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plans;
- To establish investment objectives and guidelines for each investment category offered within the Plans;
- To establish benchmarks and performance standards for each investment category and to evaluate each option’s performance against appropriate benchmarks and standards;
- To establish a procedure for reporting and monitoring of the various funds;
- To define the procedures for investment fund evaluation and formal fund review; and
- To set guidelines and procedures for withdrawal of an investment option which, in the Commission’s opinion, does not, or will not, fulfill the Plans’ objectives for which it was selected and replace the option with an appropriate substitute.

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Investment Options and Categories

The Plans authorized asset categories currently consist of twelve core investment categories:

Category
Stable Value
Fixed Income
Balanced
Large Cap Value Equity
Large Cap Blend Equity (passive)
Large Cap Growth Equity
Mid Cap Value Equity
Mid Cap Growth Equity
Small Cap Value Equity
Small Cap Growth Equity
Foreign Equity
Lifecycle

Each investment option offered under the Plans shall:

- Operate in full accordance with its current published prospectus or “fact sheet”;
- Have its performance results measured against the applicable performance standards described herein for that investment category.

If the Commission determines an investment option no longer meets the performance criteria, it will be closed and replaced with a suitable alternative pursuant to the investment fund evaluation procedure outlined herein.

If the fund fails to meet the management criteria, the fund may be closed and replaced.

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Descriptions of the authorized investment categories are listed below:

Stable Value

Objective

The objective of this investment category is to preserve principal and provide a stable, competitive rate of return. A fund in this category invests in fixed income instruments, including those of the US Government and its agencies, corporations, mortgage and asset-backed securities, collateralized, emerging market, high yield, and preferred stock securities. This fund declares an annualized rate of interest at least semi-annually.

Fixed Income

84 Month Guaranteed Certificate Fund

Objective

The objective of this investment is to preserve principal while maintaining a rate of return comparable to other similar fixed income investments without market fluctuations. The certificates are comprised of high quality investment contracts issued by insurance companies and short-term products. The certificates pay a fixed interest rate over the life of the contract.

Core Bond

Objective

The objective of this investment is to invest in income-producing securities, including corporate and US Government bonds, preferred stocks, income-producing common stocks, convertibles, and foreign securities. Investment returns are expected to be derived primarily from current income.

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Balanced

Objective

The objective of this investment category is to invest in stocks, bonds and cash to provide capital appreciation and income with less volatility than an all-stock fund. Investment returns are expected to be derived from a combination of capital appreciation and dividend and interest income.

Large Cap Value Equity

Objective

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar.

LARGE CAP BLEND EQUITY (passive)

Objective

The objective of this investment category is to track the performance of the Standard & Poor's 500 Index by investing in common stock of the large capitalization domestic companies comprising the Index. The S&P 500 Index is an equity composite of the 500 largest companies in the United States based on market capitalization. The fund manager's target is to match the index rather than attempting to outperform the index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar.

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Large Cap Growth Equity

Objective

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar.

Mid Cap Value Equity

Objective

The objective of this investment category is to invest in the common stock of medium capitalization domestic companies considered by the fund manager to be undervalued relative to the market or with above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar.

Mid Cap Growth Equity

Objective

The objective of this investment category is to invest in the common stock of medium capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar.

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Small Cap Value Equity

Objective

The objective of this investment category is to invest primarily in the common stock of small capitalization domestic companies considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser extent, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar.

Small Cap Growth Equity

Objective

The objective of this investment category is to invest primarily in the common stock of small capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar.

Foreign Equity

Objective

The objective of this investment category is to invest primarily in the common stock of companies located outside the United States. Investment returns are expected to be derived primarily from capital appreciation.

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Lifecycle (passive)

Objective

The objective of this investment category is to invest in a diversified portfolio of holdings that are systematically rebalanced during the various market cycles or stages of an investor's lifetime. These Lifecycle funds establish a targeted "maturity date" and will automatically reallocate the investments over time to a more conservative allocation. The funds are designed for the participant to select the fund that has its "maturity date" set similarly to his or her own investment horizon, often the participant's retirement age. The underlying mutual fund investments that comprise each Lifecycle fund will be passively managed by the investment manager. The dynamic asset allocation applied to each passively managed fund option will be determined and rebalanced, accordingly, by the investment manager.

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Fund Performance Criteria

If an investment option no longer meets the performance criteria, as outlined herein, a search for a suitable alternative pursuant to the New Fund Selection Procedure defined in the context of this document will be conducted.

It should be noted that the Stable Value Fund and Lifecycle Funds will not be measured by the criteria outlined below due to the unique investment structure of the Funds. However, the Stable Value Fund will have a performance benchmark of meeting or exceeding the return of the 90 Day Treasury Bill plus a premium of 1.25%, annually. While the Lifecycle Funds will be measured by their customized policy index described on page nine.

The Commission will review and evaluate each investment fund for performance criteria at least quarterly. The criteria are as follows:

- **Performance => Benchmark:** To equal or exceed the return of the specified benchmark over a full market cycle (3 and 5 year periods). Any index fund must meet the return of the specified benchmark within 50 basis points.
- **Universe Ranking => 50th Percentile:** To equal or exceed the median return of the peer universe over a full market cycle (3 and 5 year periods).
- **Risk Adjusted Performance => Benchmark:** To equal or exceed the Sharpe Ratio of the specified benchmark over a full market cycle (3 and 5 year periods).
- **MorningStar Rating => 3 Stars:** To equal or exceed a three star rating as determined by the MorningStar overall rating.
- **Consistency of Style => 4 of 6 quarters:** A similar classification consistent with the investment category outlined in the Investment Policy as identified by MorningStar Category system for a period of 4 of 6 quarters.

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- **Overall Pass/Fail:** The fund is measured against the 8 criteria listed above. At the end of each quarter, each fund must meet or exceed 5 of the 8 or 62.5% of the criteria in order to receive pass status. If less than 5 criteria are met or exceeded, the fund will receive a fail status. Index funds are measured against 6 criteria listed above (exclusion is universe ranking criteria for the 3 and 5 year period). At the end of each quarter, the index fund(s) must meet or exceed 4 of the 6 or 66.7% of the criteria in order to receive pass status. If less than 4 criteria are met or exceeded, the fund will receive a fail status.

If for a period of 4 consecutive quarters, the fund has received a fail status, the Commission will authorize a search for a suitable alternative pursuant to the New Fund Selection Procedure defined in the context of this document.

The following is a list of asset classes, benchmarks and universes that will be used in conjunction with the pass/fail criteria above for the options in the investment line-up (with the exception of the GIC certificates).

<u>Asset Class</u>	<u>Benchmark</u>	<u>Universe</u>
Stable Value Fund	90 Day US Treasury Bill plus 125 basis points	Not Applicable
Core Fixed Income Fund	Lehman Aggregate Bond Index	Core Fixed Income
Balanced Fund	Based on allocation of fund being offered.	Balanced
Large Cap Blend Fund	S&P 500 Index	Large Cap Blend Fund
Large Cap Value Fund	Russell 1000 Value Index	Large Cap Value Fund
Large Cap Growth Fund	Russell 1000 Growth Index	Large Cap Growth Fund
Mid Cap Growth Fund	Russell Mid Cap Growth Index	Mid Cap Growth
Mid Cap Value Fund	Russell Mid Cap Value Index	Mid Cap Value

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Small Cap Value Fund	Russell 2000 Value Index	Small Cap Value
Small Cap Growth Fund	Russell 2000 Growth Index	Small Cap Growth
International Equity Fund Universe	MSCI EAFE Index	International Equity
*Lifecycle Funds		
SSgA Age-Based Income Fund	10% 3 Month Treasury Bill, 40% JP Morgan 3 Month US LIBOR. 25% Lehman Long Government Bond, 19% S&P 500, 2% S&P MidCap 400, 1% Russell 2000 and 3% MSCI EAFE	Not Applicable
SSgA Age-Based 2010 Fund	5% 3 Month Treasury Bill, 15% JP Morgan 3 Month US LIBOR. 40% Lehman Long Government Bond, 30% S&P 500, 3% S&P MidCap 400, 2% Russell 2000 and 5% MSCI EAFE	Not Applicable
SSgA Age-Based 2020 Fund	5% 3 Month Treasury Bill, 30% Lehman Long Government Bond, 40% S&P 500, 6% S&P MidCap 400, 4% Russell 2000 and 15% MSCI EAFE	Not Applicable
SSgA Age-Based 2030 Fund	20% Lehman Long Government Bond, 45% S&P 500, 7.5% S&P MidCap 400, 7.5% Russell 2000 and 20% MSCI EAFE	Not Applicable
SSgA Age-Based 2040 Fund	10% Lehman Long Government Bond, 45% S&P 500, 10% S&P MidCap 400, 10% Russell 2000 and 25% MSCI EAFE	Not Applicable

*Note: Lifecycle Funds are rebalanced several times a year. In addition, the funds reduce their equity position over time (excluding the Income Fund). Therefore, slight adjustments to their Policy Index will be made annually and will be reflected in the benchmarks.

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Fund Watch List Procedure

The fund is measured against the 8 criteria outlined in the Fund Performance Criteria Section. At the end of each quarter, each fund must meet or exceed 5 of the 8 or 62.5% of the criteria in order to receive a pass status. If less than 5 criteria are met or exceeded, the fund will receive a fail status. At the end of each quarter, the index fund must meet or exceed 4 of the 6 or 66.7% of the criteria in order to receive pass status. If less than 4 criteria are met or exceeded, the fund will receive a fail status. If for one quarter, the fund has received a fail status, the fund will be placed on the Watch List. A fund that fails the criteria for four (4) consecutive quarters, will result in a search for replacement of the fund and subsequently the fund will be terminated.

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Fund Management Criteria

The Commission shall conduct a qualitative review of each investment option at least annually, with an emphasis on the following organizational and management criteria:

- Change in investment manager, or such change appears imminent;
- Change in ownership or control;
- Change in investment focus or has experienced style drift, departing from the investment objectives or parameters in its prospectus or “fact sheet”;
- A violation of a SEC rule or regulation;
- Current trends and developments in the capital markets and investment management community have determined the fund no longer fits within the investment structure and diversification of the overall Plan structure.

In addition to the annual review, the Commission may also conduct a qualitative review of any investment option upon receipt of information, which the Commission deems warrants such a review.

If there appears to be a fund management problem with one of the funds, the Commission will conduct a fund management review. During the fund management review, the Commission: 1) may allow participants to continue contributing and participating in the fund while the review process is being completed; 2) may suspend contributions to the fund from existing participants; or 3) may close the fund to new participants. Upon completion of the evaluation, the Commission may keep the fund as an investment option, place the fund on a Watch List, or terminate the fund.

- If a positive conclusion is reached concerning the fund’s continued ability to meet its performance criteria and investment criteria in the future, then no action will be taken.

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- If a conclusion cannot be reached, but there continues to be a concern about the fund's ability to meet the management criteria, the Commission may choose to place the fund on a Watch List and review the situation during the next quarter or terminate the fund.
- If a positive conclusion is not reached concerning the fund's continued ability to meet performance criteria and investment criteria in the future, then the Commission will authorize a search for a replacement and subsequently the fund will be terminated.

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Fund Termination

When the Commission terminates a fund:

1. The Commission will begin the process of seeking a new fund appropriate for a given asset class. The formal search will be conducted by the investment consultant in compliance with the New Fund Selection Procedure. The investment consultant will present the Commission with at least two potential replacement options. The Commission will choose the replacement fund from the search results.
2. The Commission will notify the Plans' provider that once a replacement fund is selected the fund will be terminated and direct the provider to freeze the fund. As of the effective date, the date the fund is frozen, new plan participants will not be able to select the fund, nor will existing plan participants be allowed to add money to the fund.
3. The Commission will notify the Plans' participants, who are currently investing in the fund, that
 - a. as of the effective date, the date the fund is frozen, new plan participants will not be able to select the fund, nor will existing plan participants be allowed to add money to the prior fund.
 - b. participants having assets in the frozen fund may leave them in the fund until the "sunset" date, usually a date up to nine months after the effective date.
 - c. notification will be provided by publishing in the quarterly newsletter and posting on the South Carolina Deferred Compensation Plan Administrator website.
4. Assets not transferred by participants from the frozen fund to an alternate investment fund by the "sunset" date will be automatically transferred to a replacement fund or a designated default fund option.

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New Fund Selection Procedure

The criteria below will be utilized in the selection of a new investment option.

- Initial selection of a fund will require that the fund shall have a three year return performance record in at least the top 50% of its respective group, based on its investment objective.
- Funds selected shall have been managed by the same person(s) or substantially the same group for at least the last four years.
- A minimum of five years of operation and history are required to be considered for selection. An institutional fund that has not acquired five years of operations can be assigned the years of operations and history of its retail copy, provided the fund has the same management and investment objectives.
- Funds with front and/or back end load fees that are paid by the participants will not be considered.
- The annualized rate of return for the most recent 3 and 5 year time periods must meet or exceed the relative market index (benchmark).
- The Sharpe Ratio for the most current 3 year period must meet or exceed the 50th percentile of the Sharpe Ratio of the MorningStar universe of retail funds in the same asset class and investment style.
- For index funds, the fund return for the most current 1, 3, and 5 year periods must match its benchmark within a range of plus or minus 0.5%.
- The fund must have a MorningStar Category Rating of four stars (above average) or five stars (highest rating). An institutional fund without a MorningStar rating can be assigned the MorningStar rating of its retail copy.

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Review of Plan Investment Options

At least annually, the Commission will review the level of diversification between the investment options and the investment categories. The Commission may choose to add, change, or delete investment options as a result of this analysis.

Changes to Investment Policy

From time-to-time, the Commission, in its discretion, may add, change or delete sections of the Statement of Investment Policy. At such time, the Statement of Investment Policy will be modified to include those additions.

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This Statement of Investment Policy is adopted by the South Carolina Deferred Compensation Commission.

Signature/Title

605634

Date